SHADOW FINANCIAL REGULATORY COMMITTEE

Administrative Office
c/o Professor George Kaufman
Loyola University of Chicago
820 North Michigan Avenue
Chicago, Illinois 60611
(312) 915-7075
FAX (312) 915-7003

Statement No. 78

For information contact:
Franklin Edwards
212-854-3290

Statement of the Shadow Financial Regulatory Committee

on

U.S. Listing Requirements For Foreign Companies

December 16, 1991

The New York Stock Exchange (NYSE) recently announced plans to attract foreign companies to list their stocks on the NYSE. With the increased globalization of securities markets, the NYSE and other U.S. exchanges are facing stiff competition from foreign exchanges. In the last few years the NYSE has lost its premier ranking among securities markets to the Tokyo Stock Exchange. Securities exchanges in London and Western Europe also are now formidable competitors.

A key competitive disadvantage that U.S. exchanges have in attracting listings from foreign companies are the strict U.S. rules governing corporate financial disclosure. These rules impose significant costs on issuers. For this reason, many foreign companies, even very large ones, have refused to conform to U.S. financial reporting standards, and, as a consequence, fail to meet the current NYSE listing requirements. The NYSE contends that unless U.S. standards are modified to allow the shares of more foreign companies to be traded on U.S. exchanges, the U.S. securities markets and institutions will eventually lose their preeminent position.

In raising this issue the NYSE has spotlighted the need for the SEC to review its disclosure requirements to make sure that they are not unnecessarily burdensome and do not inhibit the ability of U.S. exchanges to compete in world markets.

With respect to financial statement disclosure, U.S. standards are considerably more extensive than those of foreign countries. This may not be a competitively viable position for the United States in the long run. The Committee believes that the SEC should conduct an extensive review of its regulations with a view towards determining their competitive effects vis-a-vis foreign markets and competitors, and, where feasible, to reducing unnecessary obstacles to the listing of foreign companies on U.S. stock exchanges.

Making it more difficult to list foreign stocks on U.S. exchanges is not an effective means of protecting U.S. investors. U.S. investors can and do trade foreign stocks on foreign exchanges, especially in London, Frankfurt and Tokyo, where they incur higher trading costs and are exposed to less liquid markets. Further, with the growing institutionalization of securities markets, in the future most American investors can be expected to be indirect traders of foreign stocks -- through mutual funds, pension funds, and other institutions. It would seem preferable, therefore, to permit U.S. investors, both individuals and institutions, to trade foreign stocks directly on U.S. exchanges, where superior trade surveillance and trading standards afford them better protection. That protection is extended if more foreign stocks are eligible for listing and trading in U.S. markets.